

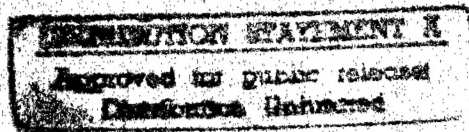
GAO

Briefing Report to the Chairman,
Committee on International Relations
House of Representatives

September 1996

FOREIGN
ASSISTANCE

Status of USAID's
Reforms



19970402 068



National Security and
International Affairs Division

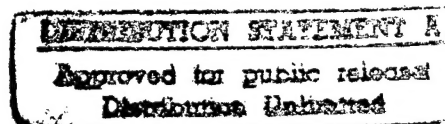
B-274657

September 24, 1996

The Honorable Benjamin A. Gilman
Chairman, Committee on International Relations
House of Representatives

Dear Mr. Chairman:

As you requested, during the first phase of this review, we focused on the status of the U.S. Agency for International Development's (USAID) reform efforts. On September 11, 1996, we briefed your staff on the results of the first phase of our review. This report discusses the information presented in that briefing. As agreed with your office, in the second phase, we plan to assess the impact that USAID reforms have had on the delivery of assistance overseas.



Background

We reported in March 1992 that USAID lacked a clearly articulated strategic direction (AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100, Mar. 6, 1992)). In response to our findings and those of the USAID Inspector General, the President's Commission on the Management of AID Programs, and a joint USAID/Office of Management and Budget study team, USAID began to develop a management improvement plan directed at program management, implementation, and evaluation; human resource management; and information and financial management.

In March 1993, the President announced the National Performance Review (NPR), a governmentwide initiative to "reinvent government." In May 1993, the USAID Administrator designated the entire agency as a "reinvention laboratory" under NPR. In October 1993, the Administrator announced USAID's reform plan.

Results in Brief

USAID has begun to undertake an array of reforms affecting the entire agency, including organization, management, and program operations. USAID's missions largely have reorganized their activities around the agency's strategic objectives and are reporting in a results-based format. However, according to USAID officials, the fiscal year 1998 budget cycle will be the first test of the degree to which results are taken into account in making resource allocation decisions. Further, personnel reforms are not as far along as other reforms and may reflect long-standing difficulties that

USAID has had in this area. Parallel to, and in support of USAID's broad reform efforts, is development of an integrated new management system (NMS) with worldwide access, which is intended to consolidate a myriad of existing systems.

USAID officials recognize that they face the challenge of institutionalizing the gains that the agency has made to ensure the long-term sustainability of reforms. To accomplish this objective, USAID needs to be able to show that it is managing resources with greater efficiency and transparency and demonstrate that it is achieving measurable results.

The briefing sections provide (1) more information on the origin and impetus for USAID's reform efforts, (2) a listing of the reform elements, and (3) a status report on the reform efforts.

Scope and Methodology

To determine the status of USAID's management reforms, we analyzed 10 key reform initiatives identified by USAID as the centerpiece of their reform effort. We reviewed data on each reform area, including action plans, agency directives and performance reports, business area analyses, and various reports and correspondence. We interviewed key agency officials in most bureaus and offices in USAID headquarters in Washington, D.C.

We also visited the USAID mission in the Dominican Republic to obtain a "snapshot" of reengineering efforts in the field. This mission is considered by USAID officials as one of the best and most successful reengineered missions. We interviewed the director and most U.S. direct hire as well as foreign service national staff participating in strategic objective teams and serving on employee committees. We also interviewed officials of nongovernmental and private voluntary organizations working with this mission.

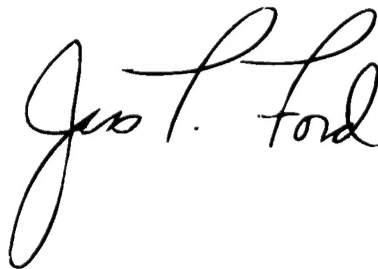
We performed our review between May and September 1996 in accordance with generally accepted government auditing standards. USAID officials reviewed the information in this report and generally agreed with it.

We are providing copies of this briefing report to the Chairmen and Ranking Minority Members of the House and Senate Committees on Appropriations, the Senate Committee on Foreign Relations, the House Committee on Government Reform and Oversight, and the Senate

Committee on Governmental Affairs; and the Ranking Minority Member of the House Committee on International Relations. We are also sending copies to the Administrator, U.S. Agency for International Development and the Director, Office of Management and Budget. Copies will be made available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-4128. The major contributors to this report were Lawrence L. Suda, John D. DeForge, James M. Strus, and Gregory S. Nixon.

Sincerely yours,

A handwritten signature in black ink, reading "Jess T. Ford". The signature is written in a cursive style with a large, looping "J" and "F".

Jess T. Ford
Associate Director
International Relations and Trade Issues

Contents

Letter	1
Briefing Section I Background	6
Briefing Section II USAID Reform Elements	8
Briefing Section III Status of Reforms	10
Status of Reforms: Strategies, Budget, Evaluation	10
Status of Reforms: Organization	12
Status of Reforms: Management/Financial Information	14
Status of Reforms: Personnel	16
Status of Reforms: Procurement	18
Status of Reforms: Reengineering	20
Status of Reforms: Sustainability of Reforms	22
Table	13
Table III.1: Projected Direct Hire Staff Reductions Between 9/30/92 and 9/30/96	

Abbreviations

AWACS	AID Worldwide Accounting and Control System
NMS	new management system
NPR	National Performance Review
OMB	Office of Management and Budget
USAID	U.S. Agency for International Development

Background

GAO Background

- Mid-1992: In response to recommendations by our office and others, USAID began to develop a management improvement plan.
 - March 1993: The President announced a governmentwide initiative to "reinvent government" called the National Performance Review.
 - May 1993: The Administrator designated USAID as a "reinvention laboratory."
-

In response to recommendations by our office, the U.S. Agency for International Development (USAID) Inspector General, the President's Commission on the Management of USAID Programs, and a joint USAID/Office of Management and Budget (OMB) study team, USAID began to develop a management improvement plan in mid-1992. The plan was to include improvements in program management, implementation, and evaluation; human resource management; and information and financial management.

In March 1993, the President announced the National Performance Review (NPR), a governmentwide initiative to "reinvent government." NPR examined every cabinet department and 10 independent agencies. The NPR report included 38 recommendations to USAID.

In May 1993, the USAID Administrator designated the entire agency as a "reinvention laboratory." This committed USAID to fundamental reform, with the goal of transforming the agency into a high-performance, results-driven organization.

USAID Reform Elements

GAO USAID Reform Elements

- Revised Legislation
 - Strategies
 - Organization
 - Management information
 - Financial management
 - Budget
 - Evaluation
 - Procurement
 - Personnel
 - Reengineering
-

USAID has identified 10 key reform elements as the centerpiece of its reform effort. We have used these elements in this presentation.

USAID submitted proposed legislation to Congress for fiscal year 1994 (the Peace, Prosperity, and Democracy Act of 1994, H.R. 3765) to repeal the Foreign Assistance Act of 1961 and provide a revised policy framework for U.S. foreign assistance. The bill was referred to the Senate Foreign Relations Committee and the House Committee on Foreign Affairs. Although the bill was not passed, USAID has reorganized its program operations along the lines of strategic objectives, incorporating some goals of the proposed legislation.

The other reform elements are discussed in the following briefing section entitled Status of Reforms.

Status of Reforms

GAO Status of Reforms Strategies, Budget, Evaluation

- USAID is reorganizing its activities around strategic objectives.
 - Congress continues to require project reporting.
 - USAID is using strategic objectives and the Results Review and Resource Request (R-4) process to build budgets.
 - USAID is using performance indicators to measure progress in meeting strategic objectives.
-

USAID issued its Strategies for Sustainable Development in March 1994, which outlined the five priority areas in which USAID would concentrate. These priority areas are (1) promoting economic growth, (2) stabilizing population and protecting human health, (3) advancing democracy, (4) encouraging sound environmental management, and (5) providing humanitarian and transition assistance. USAID missions have identified their strategic objectives and developed plans on how the objectives will be achieved. However, USAID's congressional oversight committees have not accepted USAID's strategic objectives program approach as a basis for reporting to Congress; thus, the agency must continue to report along project lines. USAID officials recognize that, to achieve broad confidence in its reform efforts, USAID needs to demonstrate that it is accomplishing measurable results and adjusting resources to reflect results.

In 1996, USAID began using a results framework (Results Review and Resource Request or R-4), which includes missions' strategic objectives, intermediate results, and operational indicators, to measure missions' progress. The R-4 process is intended to link resource allocations and performance. USAID officials said that the R-4 process will be fully incorporated in the fiscal year 1998 budget process.

The Administrator has testified that USAID is now focused on measurable results and that activities not achieving results will be redesigned or terminated. The Center for Development Information and Evaluation, USAID's evaluation unit, is assisting missions in setting up evaluation and monitoring teams and is concentrating on "what people need" for better performance. It also is tracking how its customers use its evaluations, has set up a computer "home page," and is issuing "how to tips" to get its findings out as quickly as possible.

GAO Status of Reforms Organization

- USAID has reduced its number of headquarters units.
 - USAID has closed 25 missions since 1992.
 - USAID is negotiating with the State Department to further reduce USAID's overseas presence by the year 2000.
 - USAID has reduced its workforce from 11,096 in 1992 to 8,638 in 1996.
-

The Administrator announced his reorganization plan for USAID in October 1993. As part of that reorganization, each major bureau and office undertook a business area analysis to "right-size" internal organization, functions, and staff. USAID has reduced its total number of headquarters units (i.e., offices, divisions, and bureaus) by 90, from 354 to 264. Unit reductions came through abolishment or consolidations, but in some cases new units were created.

Since 1992, USAID will have closed 25 missions by the end of fiscal year 1996. According to USAID officials, the closures include representative offices, as well as missions. USAID closed (1) five missions because their host countries were considered poor development partners (e.g., Zaire); (2) 15 missions because the host countries were ready for graduation from U.S. assistance (e.g., Costa Rica); (3) one mission (Belize) because the cost of operations exceeded the cost of program assistance; and (4) four missions because of civil wars or safety or other concerns (e.g., Liberia). USAID counted the closure of the office in Uruguay as two graduation closures because it also serviced operations in Argentina.

USAID is negotiating with the Department of State on additional closures. USAID intends to further reduce its overseas presence over the next 5 years. From a total of over 70 missions in 1993, USAID expects to operate about 30 full missions, 20 limited missions with fewer U.S. direct-hire staff, and maintain the capacity to mount up to 10 transitional missions.

USAID cut its total workforce, including direct hire staff and personal service contractors, by 22 percent from 11,096 in September 1992 to 8,638 as of August 31, 1996. Part of the staff reduction was achieved through a recent reduction-in-force, which eliminated 103 civil service and 97 foreign service positions worldwide. USAID's stated goal is a total workforce of 8,000 by fiscal year 1998.

Table III.1 depicts the projected reduction in civil service and foreign service direct hire staff through September 1996.

Table III.1: Projected Direct Hire Staff Reductions Between 9/30/92 and 9/30/96

Type	Staff on 9/30/92	Staff on 9/30/96	Staff reduction
Civil Service	1,558	1,220	338
Foreign Service	1,591	1,187	404
Total	3,149	2,407	742

GAO Status of Reforms Management/Financial Information

- NMS is designed to integrate accounting, budget, personnel, procurement, and operational functions.
- NMS was activated at headquarters in July 1996; mission activation expected in October 1996.
- Data transfer, development concerns, and further testing are delaying full implementation.
- NMS will not be able to produce an auditable financial statement for fiscal year 1996.
- USAID intends to contract for a third-party assessment for system integrity and security.
- NMS costs to date are about \$73 million.

Since 1994, USAID has been developing an automated new management system (NMS) for its business and service functions. NMS is being designed to consolidate all of USAID's accounting, budget, personnel, procurement, and program operations into a single, integrated network with worldwide access. These efforts have been characterized by officials at USAID and OMB and industry representatives as technically complex but a valuable management tool. For example, one accounting module, the AID worldwide accounting and control system (AWACS), is intended to replace

11 outdated accounting systems currently operating in 43 USAID accounting centers worldwide.

NMS was activated at USAID headquarters in Washington in July 1996. (Activated means that all hardware is in place with the system modules running at varying capacities while development and testing continues). USAID officials intend to activate an updated software package for mission use in October 1996.

Full implementation of NMS will not occur until system development and data transfer from the old systems to NMS are complete. According to USAID officials, NMS, particularly the AWACS, will not be fully implemented for about a year. For example, the current AWACS module cannot perform intended functions such as accrual calculation and reporting or foreign currency accounting. USAID plans to correct these deficiencies in future upgrades.

Also, as a result of development delays, NMS will not be able to meet USAID's stated goal of producing an auditable financial statement for fiscal year 1996. According to USAID officials, the financial statement will be developed using USAID's current accounting systems.

OMB and industry technical experts have recommended a third-party assessment of the NMS development effort based on established professional standards for systems integrity and security. USAID officials agreed that, unlike a previous NMS risk assessment conducted in 1995, which excluded the AWACS module and some of the development methodology and procedures, the future assessment will include all modules, functions, and development activity. USAID officials have said they will contract for such an assessment.

The costs for NMS hardware and software development to date are about \$73 million. These costs include about \$23.5 million for the AWACS module development and about \$15 million for hardware infrastructure costs. The remaining costs include budget, procurement, and operations module development, as well as telecommunications and database management. USAID Inspector General officials told us they are reviewing NMS costs and plan to issue an interim report by September 30, 1996.

GAO Status of Reforms Personnel

- Personnel reforms are not as far along as other reforms.
- USAID implemented a new employee evaluation program in April 1995.
- NMS personnel module is expected in 1998 at a cost of about \$2 million.

The 1993 NPR report recommended that USAID overhaul its personnel system. The report stated that workforce management has been raised as a problem at USAID in most of the major studies of the agency, including our June 1993 report (Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106, June 11, 1993)). The USAID personnel system has been criticized as complex, costly, and unsuited to accomplishing the agency's mission. In response to that report, in December 1994, USAID began developing a human resources

business area analysis to identify reforms and outline strategies for implementing improvements.

USAID issued the business area analysis in August 1995, and indicated several areas for reform, including personnel administration, career management, training, foreign service assignment, employee evaluations, and foreign service national support. However, since that time, USAID has implemented few of these reforms. Consequently, personnel reforms are not as far along as other USAID reforms. For example, USAID has not yet developed the career management plan for USAID direct hire employees and has not implemented some training and workforce planning reforms, such as reforms aimed at integrating career management and expanding training methods/learning delivery.

USAID officials said their reform efforts were delayed in fiscal year 1996 because its Personnel Office devoted much of its resources to implementing the reduction-in-force and two furloughs. USAID officials indicated that they plan to accelerate the pace of personnel reform over the next year. They are also working with the State Department to define foreign service national personnel system requirements.

In January 1996, USAID instituted a new employee performance evaluation system, combining the foreign service and civil service systems under the same evaluation framework. The system is designed to promote teamwork, improve management, and reduce administrative costs. The new system separates evaluation from promotion and seeks employee performance information from peers, support personnel, supervisors, and customers affected by the employee's work.

In personnel administration, USAID plans to use information technology to accelerate personnel actions and provide worldwide access of personnel records, assignment actions, and employee information. USAID plans to purchase an "off the shelf" commercial personnel software package, tailor it to the agency's civil service and foreign service systems, and integrate it with NMS. USAID expects to have this system in place by 1998 at a cost of about \$2 million, which is not included as part of the current \$73 million in NMS cost estimates.

GAO Status of Reforms
Procurement

- USAID has increased transparency and encouraged wider participation in the procurement process.
- USAID has reduced contract award time by 42 percent.
- USAID has increased procurement staff.

In January 1994, as part of the agency's reform efforts under NPR, the Administrator outlined 18 procurement initiatives to reform the procurement process. Improvements in procurement are important given the scope of procurement done by USAID. Currently, USAID manages approximately \$13 billion of ongoing contracts, grants, and cooperative agreements, with annual awards of over \$3 billion.

To eliminate the perception that USAID had become a "closed shop" and to increase competition, USAID has taken a number of steps to encourage wider participation and increase transparency in USAID procurement. In particular, USAID uses (1) the Internet and other electronic media and (2) Commerce Business Daily Announcements and Contract Information Bulletins to notify potential vendors of contracting information, such as procurement forecasts, bids, and solicitation documents. To encourage broader participation by potential customers, including small and disadvantaged businesses, USAID holds outreach conferences throughout the United States and has issued a guide to doing business with USAID. Further, USAID has held a series of vendor town meetings and follow-up workshops to provide a forum to identify and focus on procurement issues important to USAID and the development community.

USAID has reduced competitive procurement time for contracts and task orders by about 42 percent. In fiscal year 1993, USAID took an average of 192 days to award a competitive contract or task order from the time of request for proposal to contract issuance. By fiscal year 1995, USAID had reduced this time to an average of 111 days. USAID officials attribute the reduction in award time to such factors as (1) increased use of task orders, (2) better procurement planning, (3) more timely completion of pre-award audits, (4) increase in the number of procurement professionals, and (5) better training of staff.

While USAID has reduced its staff overall, the agency realized it needed to increase the size and professionalism of its procurement staff to successfully reform the procurement area. USAID has increased the number of its procurement professionals (contracting officers and contract negotiators) by about one third since fiscal year 1990. In 1990, the number of contracting professionals was 104, rising to 119 in 1992, to a current level of 151; this total includes 17 staff in the Office of Policy and Evaluation who were assigned to the Office of Procurement as part of USAID's consolidation. Further, USAID has instituted a system of continuing professional development requirements and a procurement management certification program.

GAO Status of Reforms Reengineering

- USAID has developed four principles to guide its reengineering efforts.
 - USAID missions have reengineered their operations to varying degrees.
 - Not all headquarters units have adapted their operations to support reengineered missions.
-

USAID's reengineering effort has been along four guiding principles: (1) defining and involving USAID's customers, (2) empowering employees, (3) managing for results, and (4) emphasizing and rewarding teamwork. To help implement these principles, USAID developed business area analyses to reform its core business functions.

USAID reports that its overseas missions have reengineered their operations to varying degrees and missions are structuring their development efforts within USAID's overall strategic objectives. Early in the reform process, USAID selected 10 missions to serve as experimental laboratories to test various reform efforts. As a result, some missions have reengineered their operations to a greater degree than others. For example, the mission to the Dominican Republic has reengineered its operations along four strategic objectives, reorganized along strategic objective teams, and physically reconfigured the office to promote teamwork. Employees have been given greater authority and responsibilities, and organizational levels were reduced. The mission has brought its customers —nongovernmental organizations as well as other donor institutions —into its planning and operational discussions.

Headquarters units have not reengineered their operations to the degree that missions have and not all have adapted their operations to support reengineered missions. USAID officials acknowledge that headquarters, in general, has not reengineered operations at the same pace as many missions. However, these officials added that headquarters units still are committed to reform and reengineering but at a slower pace. Missions are closer to their customers and have more at stake in the development process. Working directly with recipients, missions can much more easily see the results of their efforts. Further, bureaucratic and cultural barriers to reengineering are easier to break down at a mission level than at headquarters.

GAO Status of Reforms Sustainability of Reforms

- USAID needs to demonstrate that measurable results are being achieved and resources are being adjusted to reflect results.
- Employee confidence in NMS is critical to USAID reforms.
- Reform success could be affected by disparity in progress among reform elements.
- Institutionalizing reforms will help sustain momentum.

The USAID Administrator committed the agency to fundamental reform in 1993 with the goal of transforming USAID into a results-driven agency. USAID has since undertaken a substantial array of reforms affecting the entire agency. Key aspects of success are being able to demonstrate that USAID is achieving measurable results under its strategic objectives and considering results in its resource allocation. These actions will also help build congressional confidence in the strategic approach as well as that of other stake-holders such as the State Department.

Most of USAID's reforms will be facilitated and supported by the successful implementation of NMS. For example, USAID procurement efficiency depends on NMS as does the smooth operation of a results-based budgeting process. While employees support what the system promises, they remain skeptical about what it will deliver. This skepticism is in part due to a record of delays in implementation. For example, although USAID intended the system to be operational by October 1995, the AWACS module will not be fully operational for at least another year and the entire system is still undergoing testing.

Missions are structuring their activities around the agency's strategic objectives and are reporting in a results-based format. Ultimately, their success and efficiency will depend to a considerable extent on the support they receive from other components undergoing reform. For example, personnel reforms are not as far along as other reforms and may reflect long standing difficulties that USAID has had in this area. However, an important part of personnel reform, a new employee evaluation system, has been introduced. Its success will be a key to USAID being able to show that it is holding employees accountable and rewarding them for results.

While reforms continue, USAID officials recognize that they face the challenge of institutionalizing the gains made to ensure the long-term sustainability of reform. Concurrent and consistent progress in all areas of reforms will help USAID to achieve sustainability. Such progress, along with transparency in resource allocation based on results and continued training on reengineering concepts and practices, will help capture these gains.